

Management Control Systems in an Innovative, Fast-Growing, Retail Business – A Case Study

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Abstract

Good management control systems (MCSs) are important to increase the probability that the organization's objectives will be achieved. The objective with this study was to explore and put into a corporate and market perspective, the MCS in use at a fast growing, innovative, small or medium-sized business (SME) in the service sector, with a view to add and deepen the qualitative understanding of the MCS perspective in the context of strategies, competitiveness and performance. Further to add empirical insight to the successful application of MCSs in innovation companies. A combined explanatory and exploratory case study approach was applied to study MCSs in Alewalds Sports AB, a Swedish, fast-growing, innovative, high quality and service outdoor and sports retail business. Informal processes, personnel and cultural control were identified as important elements in the MCS implemented in this well performing company. Tight results control was primarily applied in the revenue dimension, and this was well in line with company objectives to prioritize growth. As the business grows and becomes more complex, Alewalds may have to implement a more formalized MCS with more emphasis also on costs and assets/risks. Alewalds may also, in a more regularly and structured manner, have to evaluate performance on a broader set of parameters reflecting progress in e.g. customer relations, quality, service and sustainability. The research approach was found useful to investigate and improve the understanding of the MCS perspective in the context of strategy, competitiveness and performance for innovative, fast-growing SMEs in the retail service sector. Results are not necessarily generalizable as only one case was studied. It is also difficult to relate company performance solely to the MCS used, whereby management approaches used in strategy and other areas as well as integrative aspects may also be very significant to explain and understand company success. The study may nevertheless be important as it contributes with empirical data and understanding to support future theory building in the field of strategy and MCSs.

Keywords: Management control system (MCS); Innovation; Retail; Fast-growing; Case study

Introduction

It is widely accepted that good Management Control Systems (MCS) are important. The concept of MCSs can, according to Merchant & Van der Stede (2012, pp 3-9), be broadly defined as everything managers do to help ensure that their organization's strategies and plans are carried out, but also to initiate changes of strategies and plans if needed to adapt to external or internal circumstances. A primary function of management control is to influence behaviors in desirable ways to increase the probability that the organization's objectives will be achieved. Management control failures can lead to financial losses, reputation damage and organizational failure.

MCS and corporate governance systems are inextricably linked. A corporate governance focus is primarily on controlling top management behavior and less directly all other employees in the organization, whereby the MCS

focus is to ensure the proper behavior of the employees from the perspective of top management (Merchant & Van der Stede, 2012, p 553).

Brown & Eisenhardt (1995) and Davila (2000) have explored the relationship between formal MCS and product innovation in e.g. R&D departments and product development teams. Bisbe & Otle (2004) have looked further into how higher level management control can impact product innovation. They have found support for that the more interactive use of MCS by top managers, the greater the effect of product innovation on performance.

Rubio & Aragón (2009) have looked at SMEs competitiveness, strategies and strategic resources using mainly statistical quantitative methods. Their hypothesis that there would be a positive relationship between the "fit" of resources and capabilities and strategies and

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Academy of Contemporary Research Journal

V III (IV), 98-107, ISSN: 2305-865X

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SMEs' performance was partially verified by their results. Cassia & Minola (2012) have studied the relation between entrepreneurship management, resources and business environment for hyper-growth SMEs. The case study presented in this article aims to add and deepen the qualitative understanding of the MCS perspective in the context of competitiveness and performance for fast-growing SMEs.

Past research has traditionally argued that management control systems (MCSs) may present a hindrance to the creativity of innovation companies. Haustein et al (2014) have surveyed the literature and developed a theoretical model of the impact of eleven external, organisational and innovation related contingency factors on the MCSs in companies that engage in innovation activities. Their model predicts contradictory influences on two direct control categories, results and action control, but stresses the importance of two indirect categories, personnel and cultural control. They suggest that innovation capability in this type of company are expected to be negatively associated with the application of results and action control, whereas personnel and cultural seem to be more appropriate. Finally, they suggest further empirical research to explore the field. The research presented in this article aims to add further empirical insight to the successful application of MCSs in innovation companies. Aas (2011) has explored management control best practice related to service innovation activities. This has been done by conducting qualitative in-depth interviews with managers in ten top performing firms that have an exceptional focus on service innovation. He found that the MCSs implemented for service innovation activities in these firms were simplistic, one-dimensional and predominated by financial measures, i.e. different from the MCSs that have been identified in empirical studies of product innovation best practice, which are typically multi-dimensional, relatively complex and focusing both on financial and non-financial measures. Aas further suggests that further research should look into if service innovation management may benefit from adopting broader MCSs. This study aim to contribute to empirical research in the area by exploring MCSs in an innovative service company in the retail sector, which have implemented a broader MCS. The findings may be useful in future inductive theory building approaches with roots in e.g. grounded theory as defined by Glaser & Strauss (1970).

Objective and Scope

To study, explore and put into a corporate and market perspective, the MCS in use at a fast growing, innovative, small or medium-sized business (SME) in the service sector, with a view to add and deepen the qualitative understanding of the MCS perspective in the context of strategies, competitiveness and performance. Further to add empirical insight to the successful application of MCSs in innovation companies. The case study company selected was Alewalds Sports AB. This company represents a small, fast-growing retail business in Sweden, performing well above average both operationally, innovatively and financially in its business sector. The primary focus for this study is the use of MCSs to support the business in reaching its objectives; including growth, innovation and profitability. Alewalds Sports AB is a family owned business where the owner also acts as the company managing director (MD). The

corporate governance systems perspective is only briefly covered.

Alewalds Outdoor & Sports History in Brief

Alewalds Outdoor & Sports has a long history partly reflecting sports retail development in Sweden. Alewalds has its roots in the store that was started back in 1937 by Sandström's Ski Factory at the then newly built property Norrlandsgatan 31-33 in Stockholm, Sweden. Sandström's store Norrlandsgatan was sold in 1943 to Monarkbolagen and was renamed Monark Sportaffär. At this time, Svante Alewald was managing director and head of Monark's branch office in Stockholm. He then acquired the store from Monark in 1957 and changed its name to Alewalds Sport.

At Svante's death in 1972, the children Mats and Cicci they took over the business. When the entire store property would be fully renovated in the mid-nineties, Mats and Cicci decided to move to other premises, and in 1997 opened Alewalds on Kungsgatan 32 in the premises, which today represent Alewalds men's area. Then Alewalds also began to orient themselves more towards outdoor and cross country skiing. On Kungsgatan 68 was another traditional outdoor and mountain sports shop, Sportkompaniet, which was acquired by Anders Engström in 2004. When Mats and Cicci retired in 2005, Anders also acquired Alewalds. Since October 2005 Sportkompaniet and Alewalds belong to the same company group owned by Anders.

Simultaneously with the change of ownership for Alewalds was disclosed an opportunity to gain access to much larger retail space at the address Kungsgatan 32. The launch and opening of Alewalds in new larger premises was done in November 2006. In 2010 the company also acquired the outdoor store Fjällskog in Uppsala. All three stores are now in the same group and are branded Alewalds.

In the summer 2011 the Kungsgatan 68 store was renovated and now serves as an outlet, Alewalds Quality Outlet. It sells discontinued models of quality products in a city location to 30-70% of the recommended prices with knowledgeable staff to help customers.

Alewalds has more than 250 leading brands in the product range and has put special emphasis on Scandinavian brands. In Sweden, they have the largest assortment of Bergan, Haglöfs, Ivanhoe, Lundhags and Silva products. The store on Kungsgatan 32 has one of the largest departments for cross country skiing and has a wide range of roller skis and is also an official Vasaloppet Store. In March 2011, Alewalds was awarded the Swedish Retailer of the Year Award for its high quality and personal service, and its carefully selected product range. (www.alewalds.se, 2013)

The annual turnover for 2011/12 was 75 MSEK, with an estimated annual growth rate of around 20 %. Total assets April 2012 was 39 MSEK whereof inventory 22 MSEK. The number of full time equivalent employees are 36 whereof around 2/3 in the main store at Kungsgatan 32. (Annual report (2012) and Interviews (2013))

Methodology

There are different research methods available for social science research such as case studies, experiments, surveys etc. According to Yin (2008, p 2) each method has its advantages and disadvantages depending upon three conditions: the type of research question, the control the investigator has over actual behavioral events,

and the focus on contemporary as opposed to historical events. The research question in this study is of “how” type, the researcher has little control over events and the focus is on contemporary phenomenon within a real life context. These research characters makes case study the preferred research method according to Yin (2008, p 2), and hence has the case study research methodology been selected as appropriate for this research.

Yin (1993) has identified some specific types of case studies: Exploratory, Explanatory, and Descriptive. This case study is mainly explanatory, describing current use of MCSs. However, it also contains an exploratory element regarding the use of MCSs to support and achieve business innovation, growth, operational and financial performance, as the case represents a company performing well above average in its sector.

Case study research is not sampling research; that is a fact asserted by the major researchers in the field, including Yin, (1993&2008) and Stake (1995). However, selecting cases must be done so as to maximize what can be learned in the period of time available for the study. The unit of analysis is a critical factor in the case study. It is typically a system of action rather than an individual or group of individuals. In this research the system of action is close to a company. Case studies tend to be selective, focusing on one or two issues that are fundamental to understanding the system under examination. Here, the issue is the use of MCSs.

Practical advice from Ellet (2007) has been used and found valuable when performing this case study. The research process in this study follows an iterative case study process with the following steps as proposed by Yin (2008, p 1):

Plan – this stage involves the identification of research questions and decision of research method

Design – this stage involves identification of the unit(s) of analysis. Case studies can be carried out as single case or multiple case studies. A single case approach has been selected based on the second rationale for single case by Yin (2008, p 47), namely that the case represents a unique case to study the research question.

Prepare – this stage involves the preparation of a case study protocol.

Collect – According to Yin (2008, p 98) case study evidence may come from six different sources: documents, archival records, interviews, direct observation, participant-observation, and physical artifacts. In this case the first three sources have been used. The principle of using multiple sources of evidence has been used to increase case study quality. Primarily have various documents (company, sector and academic), individual interviews and group interviews been used. Interviews have been carried out with key staff at Alewalds at the store premises in May 2013. The interview is one of the most intensively used methods of data collection in the social sciences. The style of interviewing usually employed in qualitative research is different from the kind of interviewing that normally takes place in quantitative research. The key difference is that qualitative researchers rarely employ the structured and standardised interview approach typical in quantitative research (Bryman & Burgess, 1999). They argue however that there is no typical approach to interviewing in qualitative research. At one extreme is the more or less totally free, unstructured and open-ended interview, which has the appearance of a lengthy conversation with few prompts by the researcher. At the

other extreme is qualitative interviewing in which each respondent is asked the same series of questions, but they are given considerable latitude in how they answer and in the sequence of asking questions. This is a kind of semi-structured approach, which is very common in qualitative research. The latter semi-structured approach to interviewing has been used in this study.

Analyze – The general strategy for the analysis is to rely on theoretical proposition as described by Yin (2008, p 130).

Share – The format of the case study report is a scientific article. A Linear-Analytic structure has been chosen, which according to Yin (2008, p 176) is a standard approach for composing research reports. The sequence starts with the issue being studied and is followed by methods used, a review of the relevant prior literature, findings from the data collected and analyzed, and the conclusions and implications.

The case study approach has been selected as a means to generate data and explore MCS in an innovative service providing retail environment to support future theory building using e.g. a grounded theory approach as suggested by Glaser & Strauss (1970).

Literature review

Management Control Systems (MCSs)

Control Types

Merchant & Van der Stede (2012, pp 29-97) has defined four main forms of control in MCS:

- results control
- action control
- personnel control
- cultural control

Results control is an indirect form of control as it does not focus explicitly on employees' actions or decisions. It is useful when it is hard to exactly define (e.g. by manual, guidelines) how an employee (e.g. researcher, sales staff or manager) should act in a (complex) situation (Merchant & Van der Stede, 2012, p 40). Action control, on the other hand, is more direct and focuses on the encouragement of appropriate actions and behavior and prevention of inappropriate actions and behavior of the employees (Merchant & Van der Stede, 2012, p 81).

Action and results control are typically used at different levels in the organization. For higher level managers, results control is commonly applied to measure and evaluate their performance. Managers often control the lower level staff members by action control. Quantitative measures are frequently used both in action and results control (Merchant & Van der Stede, 2012, pp 34). Personal and cultural controls on the other hand are typically “softer” and more qualitative in nature, and the control is largely executed by self and mutual-monitoring (e.g. by colleagues). Personal and cultural controls have increased in importance as organizations have become flatter and leaner, bureaucracies to control employees have been dismantled and the work tasks have become more complex and the employees have become more educated (Merchant & Van der Stede, 2012, p 96).

Simons (2000) suggest a somewhat different structure in his levers of control framework, where he posts that four control systems – beliefs (e.g. core values), boundary (e.g. behavioral constraints), diagnostic (e.g. monitoring) and interactive (e.g. forward looking) – work together to benefit an organization.

Control System Tightness

MCS tightness or looseness describes the degree to which the MCS contribute to the likelihood that the organizational objectives will be achieved. Tighter MCSs should provide more assurance that employees will act in the organization's best interest (Merchant & Van der Stede, 2012, p 123).

For tight results control, the result dimensions must be congruent with the "true" organizational objectives. If the results control is incomplete, e.g. all dimensions not covered, other types of control should be used to close the gaps. Incentives/ rewards are often used (Merchant & Van der Stede (2012, pp 123-126). Within action control, accountability control is often similar to results control, but punishments are typically more common than incentives. Physical or administrative behavioral constraints (e.g. locks or passwords) can be tight if properly designed, as can also frequent preaction reviews made by competent reviewers (Merchant & Van der Stede, 2012, pp 126-130).

It can be difficult to implement tight personnel/ cultural control, but it usually works very well in charity/ voluntary organizations. In small family run companies it can typically also be possible to implement tight personnel/ cultural control. Personnel control can be unstable as the circumstances changes and is hence often not so tight. Cultural control is often more stable and can be made tighter (Merchant & Van der Stede, 2012, pp 130-131).

Control System Costs

MCSs provide one primary benefit, namely that a higher probability that the organizational objectives will be met. This benefit has to be balanced against MCS costs. The implementation of in principle any MCS will incur direct costs for the company. Direct costs could arise in e.g. IT systems, incentive compensation and time used for planning, preaction reviews and follow up. There are also a number of potential indirect costs related to harmful side effects of MCSs. Management myopia/shortsightedness is one common example but there are many other forms of so called behavioral displacement that relates to MCSs encouraging behavior that is not fully consistent with organizational objectives. Behavioral displacement could relate to easy sales rather than profitable sales, recruiting the wrong type of employees, bureaucratization and MCS related creation of negative attitudes among the staff (Merchant & Van der Stede, 2012, pp 186-196).

One concrete example is employee monitoring software which may provide what seems useful information, but it may also undermine employee morale and mutual trust (Merchant & Van der Stede, 2012, p 195). Needleman (2010) reports that the number of small businesses that use surveillance technology, to keep an eye on worker productivity, is increasing. A 2009 survey in the USA showed that 20 % of small businesses use surveillance technology compared to 15 % in 2008. Needleman (2010) states that that some employees will deem the implementation of surveillance software an invasion of their privacy, and something that does not fit in a laid-back small-business environment. Rocki-Lee DeWitt a Professor at University of Vermont is quoted by Needleman, and she states however that business owners may be able to convey trust and win over employees by explaining their logic behind the system. The Economist (2009) states that one of the limitations with surveillance software is that it offers no help in addressing the

problems it uncovers, and that it may also undermine morale and mutual trust.

The Myopia Problem

The myopia problem is an excessive focus on short-term performance. For top management, myopia can be mitigated by holding the managers accountable for market valuation of stock prices (Merchant & Van der Stede, 2012, p 456). Further remedies proposed by Merchant & Van der Stede (2012, p 445) to alleviate the myopia problem are:

- Reducing the pressure for short-term profits
- Using preaction reviews to control developmental, long-term investments
- Lengthening the horizon over which performance is measured and rewarded
- Changing what is measured, using other measures than accounting income
- Adjusting accounting measures to better reflect economic income
- Replacing or complementing accounting measures with (nonfinancial) value drivers of performance

MCS Design and Implementation

Merchant & Van der Stede (2002, p 209) states that there are two basic questions which are crucial in the design and evaluation of MCSs:

- **"What is desired?"** relates to the objective of the organization, and without a good understanding of the objectives and the derived strategies indicating priorities and guiding the actions to reach the objectives, it is very difficult to design and implement an adequate MCS. (Merchant & Van der Stede, 2012, p 209).
- **"What is likely to happen?"** refers to current and expected performance and future outcome. For many organizations and their environments/ markets, the future is very uncertain and hard to predict. MCS can be a way to influence "What is likely to happen?" in a direction towards objectives. This can be done through reward, punishment, motivation, culture etc. in different control dimensions and with different tightness applied (Merchant & Van der Stede, 2012, pp 209-217).

Studies by Abernethy et al (2010) show that the leadership style influences both the use of planning and control systems, as well as the performance measurement systems. Based on these results, it can be expected that the MCS in this case study will reflect the management leadership style in the studied company.

Sandelin (2008) has studied MCS in a growth firm context. He finds that it is very important to put attention to the couplings between cultural, personnel, action and results control. He also concludes that a more formal or a less formal MCS can work equally well in an operation with limited operational complexity. As complexity and size of the business grows, the need for a more formal accounting centric control system increases.

Cugueró-Escofet & Rosanas (2013) has studied MCS and concludes that the design and use of the MCS can be considered as just or unjust. For maximum goal congruence, both design and use have to be just. Second best is to have an unjust design but a just use, which is better than a just system with unjust use. Worst case is an unjust system which is used in an unjust way.

Financial Results Control Systems

Financial responsibility centers are a core element of a financial results control system. Merchant & Van der

Stede (2012, pp 262-266) defines four basic types of financial responsibility centers:

- **Investment center** managers are responsible both for some income statement and balance sheet items, that is both profits and investments made to generate those returns.
- **Profit center** managers are accountable for some measure of profits.
- **Revenue center** managers are accountable for generating revenues.
- **Cost centers** managers are responsible for some elements of costs.

Transfer prices are used when goods and services are transferred internally between profit centers in a company. Transfer prices do not affect the overall profit and loss of a company directly as revenue in one center will be balanced by cost in another. Indirectly however, the consequences can be very significant both in a (cross-border) tax perspective and the impact on resource allocation, motivation, performance evaluation, pricing, make/buy decisions etc. There are different models for transfer pricing such as market based, marginal cost, full cost, negotiated and combinations thereof, whereby each model has its advantages and drawbacks (Merchant & Van der Stede, 2012, pp 269-274).

Budgets are in principle in place to convert corporate strategy, goals and visions into an organized set of tactics that is employed throughout the organization. It forces the organization to interact, communicate and think about the future. The budget sets a standard that can be used to monitor progress against (Merchant & Van der Stede, 2012, pp 306-307).

A board of directors' member has two main control roles. Firstly, he/she controls that management seeks to maximize shareholder value. Secondly, he/she protects the interests of other corporate stakeholders such as employees, suppliers, customers etc., by controlling that corporate employee's act in a legally and socially responsible manner (Merchant & Van der Stede, 2012, p 561).

Incentive Systems

Incentives systems can be designed in many ways incorporating both financial and non-financial incentives. There are four main purposes for offering incentives according to Merchant & Van der Stede (2012, p 368-369):

- Informational or effort-directing purposes direct and remind employees regarding which performance areas are important.
- Motivational to encourage employees to exert the extra effort required to perform tasks well.
- Attraction and retention of personnel.
- Compensation can become more variable with firm performance to smooth earnings.

Incentives should be sufficiently large and meaningful to have a motivational impact on behavior and performance, but at the same time not larger than necessary. A high variable part increases the employee risk, which may have to be compensated through high potential earnings. Special care must be taken to avoid unintended consequences, such as short-term focus jeopardizing long-term value. A lower cutoff or threshold can be considered to avoid paying for bad or mediocre performance. An upper cutoff can be considered to avoid to pay for unforeseen luck, unsustainably high short term results, payments exceeding what is paid at higher manager levels, excessive payments in one single year

(which may create an "unsustainable lifestyle") and finally to reduce the consequences of the implementation of a faulty plan. Non-monetary forms of rewards such as recognition, promotions etc. should also be considered as they can sometimes be cost-effective (Merchant & Van der Stede, 2012, p 377-379 & p 383-384).

Group rewards can produce a beneficial form of cultural control, when group members monitor and sanction each other's behavior to produce improved results. The individuals should perceive that they can influence the group performance on which the reward is based to a considerable extent (Merchant & Van der Stede, 2012, p 383).

Additional Performance Dimensions

There are a number of performance measurement models that add further dimensions to the generally common financial perspective in MSC to get a more balanced view. The Kaplan & Norton (1996) Balanced Scorecard (BSC) model is probably the most well-known and commonly adopted. The BSC model proposes a combination of indicators in the following perspectives:

- **Financial** perspective. This is the short term owner view and typical measures are Return on equity and operating income
- **Customer** perspective, with examples of measures such as customer loyalty and customer satisfaction
- **Internal** perspective, with focus on internal productivity measures such as output per employee, material yield etc.
- **Innovation and learning** perspective includes measures such as leadtime for new product developments, training of staff etc.

The current performances in the latter three perspectives are supposed to indicate and give some guidance on the future financial performance on a longer term basis. There are however also some critics regarding the BSC model. An example is Nørreklit (2003, pp 591-593& 616) who argues that BSC lacks a reliable theoretical base and is not based on sound argumentation. He further puts forward the view that there is no clear cause-and effect relationship between some of the suggested areas of measurement, e.g. customer loyalty and long-term financial performance.

Durden (2008) has studied the social responsibility dimensions of MCS. He concludes that both formal measurement and informal control are key aspects in developing a MCS that incorporates social responsibility. Gond et al (2012) finds that sustainability strategies become stronger if they are an integrated part of MCSs.

Controllability

The controllability principle states that employees should be held accountable only for what they control, and a measure is totally controllable by an employee if it is affected only by his or her actions or decisions (Merchant & Van der Stede, 2012, p 503). The principle sounds simple but the implementation is often complicated and far from unproblematic as many results measures are partially uncontrollable (Merchant & Van der Stede, 2012, p 515).

Catasús et al (2007) add further dimensions and understanding to controllability and uncontrollability. Purchasing can be used as an example, where a typical performance indicator could be average price paid per ton of a certain material. This is partially controllable where performance reflects e.g. negotiation skills and supplier selection. However, it is also partially uncontrollable as it is dependent on (fluctuating) raw material prices. There

are also performances aspects in between that are largely controllable from a corporate management perspective but less controllable from a purchasing function point of view. This relates to corporate strategies and priorities. Catasús et al argues that corporate mobilization (e.g. to provide adequate resources and strategies for sourcing) is a necessary condition to achieve good purchasing performance.

Catasús et al (2007, p 516) further argues that the acts of producing measurements is not enough to fuel the organization into acting, but measurements can, when used as indicators, support the process of mobilizing and acting. Mobilizing is here understood as the act of summoning attention, resources and strategies for acting (Catasús et al, 2007, p 509). Hence, to measure is not enough, management needs to prioritize between all possible actions and allocate resources accordingly (Catasús et al, 2007, p 508).

MCSs in the Retail Sector

Sandino (2007) has studied the MCSs that companies in the retail sector in the US invest in when they first invests in controls. She found four categories of MCSs:

- **Basic MCS** for planning purposes, standard setting and establishing the basic operations of the firm.
- **Cost MCS** focusing on enhancing operating efficiencies and minimizing costs
- **Revenue MCS** to foster growth and be responsive to customers
- **Risk MCS** focus on reducing asset risks and protect asset integrity

Iqbal (2012) has looked into MCSs used in different retail formats. A specialty store with high complexity and high needs of flexibility, need an interactive type of MCS according to Iqbal. An interactive type of MCS will help managers to involve themselves in decisions at lower organizational levels. Discount stores on the other hand have a more conservative and careful business approach and need a more diagnostic type of MCS, according to Iqbal.

Empirical Findings

Organizational Objectives and Structure

The company Alewalds Sport AB is wholly owned by Sportkompaniet Tip Top AB which in turn is fully owned by the Alewalds Sport AB MD Anders Engström.

Primary objective is to increase revenue and maintain gross profit. A large revenue base is considered essential to achieve long-term profitability. This will create economies of scale in e.g. purchasing and marketing.

The company Alewalds Sport AB is an investment center. The business is divided in four business units whose managers are held accountable for profits and inventory, but not accountable for all the other investments:

- Alewalds Outdoor & Sports, Kungsgatan 32
- Alewalds Quality Outlet
- Alewalds Outdoor & Sports, Uppsala
- Alewalds web shop

The business units are supported by common company functions for IT, Purchasing, Finance, Merchandise and Marketing. The business units are called profit centers, but using the terminology by Merchant & Van der Stede (2012, pp 262-266), the business units could be named investment centers while their managers are responsible both for some income statement (revenue and operating expenses) and balance sheet items (inventory).

There is a part time business controller employed, but his main function is business development. This mirrors to some extent the company strategy which is more oriented towards revenue expansion than cost reduction.

The board of directors is chaired by MD Anders Engström, who also owns 100 % of the company. Hence the corporate governance role to control top management is limited, which is quite a typical characteristic of family owned businesses. The MD receives external input, guidance and advice through active participation in retail trade associations and by personal and corporate networking with other family owned retail business operations.

The transfer prices used between the “regular” stores and the Outlet operation is full purchasing price without discount. Top management is aware that this model is “too favorable” for regular store managers, who get rid of unsold inventory items without depreciation, but the cost to implement a more sophisticated model has so far been considered to outweigh the benefits. The Outlet operation is to some extent compensated by lower gross profit requirements.

Planning and Budgeting

A budget is prepared annually. The main focus is on sales and gross profit. Forecasts are prepared and the budget is followed up on a monthly basis. There are also weekly planning meetings with all store managers, and each store has a daily sales and planning meeting.

The MD is very actively involved in both day to day operational questions, tactical issues and longer term strategic decisions. No major decisions are made without approval from the MD. Gut feeling and strategic concerns are very important for major investment decisions, which are most often related to marketing and service. Some recent examples are store expansion and interior decorating, web store, and a ski wax and grinder machine.

Results Controls

The company operates a very sophisticated business system which enables them to follow up and analyze sales from many different aspects such as sales person, customer, brand, product type, time period etc. Sales and gross profit per store is monitored on a daily basis. Any major deviations from “normal” or planned performance are analyzed and appropriate actions are taken as needed. Number of purchased items per customer transaction is an important non-financial indicator which is followed regularly. Customer satisfaction is also measured occasionally. It is also considered essential to follow up the percentage of actual customers among the prospective customers entering the store. This has however not yet been regularly implemented.

Business unit managers can receive a bonus as incentive based on revenue performance. There is also a threshold level for gross profit. Other sales staff receive in principle fixed salaries (with a few exceptions), but group rewards are used.

The business performance is very dependent on the uncontrollable weather conditions. There is however no reward adjustments based on controllability aspects as this is considered to be too complex and costly to implement.

The MD’s close involvement in the business, preaction reviews etc. are important to reduce myopia problems for profit center managers. Fixed salaries are used for sales staff to mitigate myopia/shortsightedness problems that could arise from e.g. overselling to a customer that would

potentially harm a long-term customer relation and the company reputation of being very knowledgeable, reliable and having very highly skilled staff.

Action Controls

Frequent preaction reviews with top management involvement are carried out to prevent undesired behavior. The MD is personally involved in all major company decisions. The amount of cash at checkout desks is limited. Customer checkout typically involves both the sales staff and checkout cashier. Any cash deviations at checkouts are immediately investigated and followed up. The business system gives also the possibility to check all the transactions by a particular employee, and this is a good tool to detect patterns outside the normal.

Personnel Controls

The company puts very strong emphasis on personnel control. The business concept is dependent on highly competent and skilled staff to provide a high level of service to the customer. The MD takes part in all interviews with prospective employees and has to approve all hiring of staff. All new employees have an eight month trial period before getting a permanent employment. Most staff people have an athletic background and/or a strong interest in outdoor activities. With the fast expansion of the company, they have been in the fortunate position to be able to select and hire new staff that fits well into the company profile.

Training is provided to all staff to make them knowledgeable and keep up to date in their special fields of competence. Special training programs are in place in close collaboration with four preferred key suppliers. Contacts with suppliers are frequent to keep staff knowledge up to date on the products, new launches etc. Competent and qualified personnel for every task are absolutely essential for the company. Staff is in general motivated and knowledgeable as their field of work mostly coincides with their personal interest. Events form a very strong part of Alewalds' service oriented business concept, and are typically carried out several times a week. Events could be of different types such as the hosting of personnel from a particular company, inviting lecturers, explorers, top athletes and/or suppliers to inspire both customers and staff. Adequate provision of staff resources at these events can sometimes be problematic. If the staff has to work extra several nights a week they can become overworked. Extra staff resources are provided by hiring extra personnel (e.g. students) for the events, but the company still relies on the deep knowledge and expertise among the regular staff to be able to give the customers the service demanded.

Cultural Controls

Corporate culture and identity are very important at Alewalds. A family atmosphere is important and everyone in the company has to engage in the sales process on the floor to serve the customers in busy periods (e.g. Christmas or events) as needed, or when regular sales staffs have their breaks. There are many "sub-culture" groups with a strong common interest (e.g. hiking, cross-country skiing or climbing) among the staff who often exercise and get together outside work hours.

To achieve uniform and desired code of conduct, a personnel policy guideline is provided to all staff containing the corporate objectives, values, culture, history, expected staff performance etc. Employees in general feel proud about the company and its products.

When the monthly sales budget is exceeded at maintained gross profit level, a staff celebration takes place as a kind of group reward. This is a social event that could be e.g. bowling or dinner. The staff is encouraged to come up with proposals on how to celebrate.

Staff dress code is to wear clothing from the preferred suppliers and always wear a name badge. The staff is provided garments for free that can be used at work. When he is around, the MD tries to statue a good example for the staff by walking around, socializing with staff and customers, and actively personally engage in operational tasks like selling.

To offer a personal shopper is part of the service concept and this puts demand on the personal shopping assistant to have at least broad knowledge of the whole product range. A broad knowledge of all products is encouraged to increase staff flexibility even though each staff person is specialized in a certain product area.

Ethical Issues

The MD and his management team try to build a good ethical climate in the company by different measures. All individuals should be respected regardless of sex, ethnic background etc. The company wants to be a good corporate citizen and engage in different projects both socially (e.g. by providing free clothing for homeless from returned garments) and environmentally e.g. by sponsoring paddling expeditions in the Baltic Sea to highlight the need for further efforts to protect the environment.

Innovation

Innovation is considered very important at Alewalds to develop the business concepts and expand the operation in a profitable way. Innovation may however lead to potential conflicts not the least regarding the temporal dimension. The company needs to innovate so they can obtain results in the long term, maintaining, however, rational control of resources to manage also the short term results. Tiomatsu Oyadomari et al (2010) have studied the potential conflict between MCSs and innovation in a different business and cultural setting, among innovative companies in Brazil. They found that the studied companies use traditional MCS tools, which do not inhibit innovation, being, on the contrary, important to stimulate innovation. The results showed that the conflict between innovation and control were not present in the studied organizations, and that it could be explained by innovation being a permanent core value in these companies. This explanation may also be applicable in this case study. The MCSs in use seem to allow for innovation, whereby innovation can be considered a core value of the company, and the company ownership and management structure also allows for long-term strategic perspectives on return.

Financial Performance

The company has been performing relatively well in recent years and has despite considerable growth not experienced any major liquidity problems. The revenue has grown from 44 MSEK in 2008/09 to 93 MSEK in 2012/13, i.e. by 113 % (Annual report, 2013). This can be compared with the sport retail sector total turnover in Sweden which has grown from 15,4 Billion SEK in 2009 to 17,6 Billion SEK in 2013, excluding VAT (Sportfack, 2014). This means that Alewalds has increased their market share in Sweden from approximately 0,3 % to 0,5 % in five years' time. Profits are relatively low, but Alewalds have at least, unlike many competitors, managed to avoid losses despite major investments in a

web shop and store interior decorations. Net profit after financial items levels have varied between 0,3 and 3 MSEK in the years from 2008/09 to 2012/13 (Annual report, 2013). This level of profit is not satisfactory and the company states that focus will be diverted from growth to profit in the coming years.

Discussion and Conclusions

Alewalds is a fast growing family business where the owner also acts as MD and is actively involved in both daily operations and long term strategic issues. Alewalds put a strong emphasis on personnel and cultural control in its operation with very knowledgeable and motivated staff providing a high service. The owner is very active and visible “on the floor” with a close and friendly personal relation to the staff. Many processes are informal rather than formal. This is well in line with the findings of Merchant & Van der Stede (2012, pp 130-131), who states that in small family run companies, it can typically also be possible to implement tight personnel/ cultural control. This is also in line with the theoretical MCS framework for innovative companies proposed by Haustein et al (2014), which stresses the importance of the two indirect categories, personnel and cultural control, whereby innovation capability can be negatively associated with the application of results and direct action control. As complexity and size of the business grow, the need for a more formal accounting centric control system may increase in line with the findings of Sandelin (2008).

The use and design of MCSs are crucial to achieve goal congruence. Top management at Alewalds is aware that there are some “unjust” elements in their MCSs. There are different reasons behind this, one is to keep the models simple to be understood by everyone affected, another is cost considerations. Some examples of these elements are internal transfer prices that are too favorable for the seller, or the weather factor sales impact that is not formally adjusted for in the performance evaluation. However, because of the small size of the company and short decision routes, flexible subjective adjustments can be made “informally” outside the formal system. Current practice at Alewalds with a partly unjust design but a just use is reasonably good and better than a just system with unjust use according to the findings by Cugueró-Escofet & Rosanas (2013). However, for maximum goal congruence the MCS design at Alewalds can be further improved to achieve an even more just design.

The leadership style at Alewalds could be described as entrepreneurial, visionary and at the same time simple and hands-on. This could be seen reflected in the MCS design, with strong emphasis on personnel and cultural control, many informal processes and avoidance of bureaucracy. Revenue and growth are very important performance parameters. The case study findings are well in line with the findings of Abernethy et al (2010) who argue that the leadership style influences both the use of planning and control systems, and the performance measurement systems.

Alewalds can be classified as a specialty store with high complexity and high needs of flexibility. According to Iqbal (2012), this indicates that they need an interactive type of MCS, which is well in line with what they have according to the case study findings. Worth looking further into is the possible need of adaptation of the MCS in order to optimally suit the needs of the discounter oriented Outlet business unit.

The current MCS at Alewalds can be characterized as a Revenue MCS type using Sandino (2007) terminology. The main characteristics of a Revenue MCS are to foster growth and be responsive to customers. This type of MCS fits very well with the company objectives observed in the study. If expansion slows down in the future, Alewalds may however have to put more emphasis on costs and assets (primary inventory) to orient its MCS more towards a Cost MCS and/or a Risk MCS type.

Alewalds has implemented a multi-dimensional MCS focusing both on financial and non-financial measures. This is a broad approach and somewhat contrasting to the findings of Aas (2011) who found that best practice MCS related to service innovation activities were simplistic, one-dimensional and predominated by financial measures. The case study results are well in line with the findings of Peljhan & Tekavcic (2008) who have shown that the combination of strategy, performance-driven behaviour and regular use of MCSs leads to improved results, and that a wide range of controls, including informal controls as being equally important as formal controls are beneficial.

Alewalds are well aware of the importance to monitor progress in several performance dimensions even if they do not have a Balanced Scorecard (Kaplan & Norton, 1996) or similar formally implemented. Alewalds wants to be a good corporate citizen and engage in projects and issues of importance especially for the local and regional environment. These efforts have so far been more of ad hoc character and have not yet been formalized and integrated in the MCS. For the future, Alewalds may have to become more structured and integrate more sustainability performance dimensions (business, social or environmental) in the MCS to further progress its sustainability work. This would be in line with the findings of Gond et al (2012) who claim that sustainability strategies become stronger if they are an integrated part of the MCS. Everything may however not be formalized, Durden (2008) states that also informal control is a key aspect in developing a MCS that incorporates social responsibility.

Adequate business strategies and/or other management approaches may also, on their own, or connected to MCS for the implementation and follow-up phases, be crucial factors that can explain the relative success of Alewalds. A company strategy describes basically how the company shall operate to reach its objectives.

Porter (1996) has made research to deeper explore company strategies and come up with a more descriptive answer to the question “What is strategy?”. He concludes that strategy is the creation of a unique and valuable position, involving a set of activities that are different from those of the rivals. An important ingredient is making trade-offs in competing, i.e. choosing what not to do. Finally, he concludes that strategy is making fit among a company’s activities. The success of a strategy depends on doing many things well – not just a few - and integrating among them. This strategic perspective, where all parts of the business are integrated to create a unique market position and offer, in this case a service oriented sport retail concept, could also be a significant part of the explanation to the relative success of Alewalds. MCS may well also play a role here, not the least regarding integrating aspects and strategy fulfilment.

Simplicity has been emphasized in the concept of strategy as simple rules as defined by Eisenhardt & Sull (2001). Along the same lines has the need for knowledge and

capability of the employees to summarize the company strategy in a few words, been considered crucial for success according to Collis & Rukstad (2008). These concepts may well be used to characterize managerial work at Alewalds on a strategic level (e.g. revenue growth as first priority), and could hence also be part of the explanation to the success of the company.

The explanatory case study approach with exploratory elements has been found useful to address the research issues at hand, to investigate and improve the understanding of the MCS perspective in the context of strategy, competitiveness and performance for innovative, fast-growing SMEs in the retail service sector. The results indicate that the implemented MCS in Alewalds, has been adequate to support the innovative, operational performance and growth of the company. The MCS largely reflects the leadership style in the company, and tight controls have been achieved using strong elements of informal personnel and cultural control combined with a strong focus on the revenue growth performance dimension. The business is now approaching a size and complexity where a more formalized and even broader MCS, including the monitoring of additional performance aspects (e.g. cost, quality, customer satisfaction, environmental impact and CSR), may be required to support future growth and prosperity of the business.

Results are not necessarily generalizable as only one case was studied. It is also difficult to relate company performance solely to the MCS used, whereby management approaches used in strategy and other areas as well as integrative aspects may also be very significant to explain and understand company success. The study may nevertheless be important as it contributes with empirical data and understanding to support future theory building in the field of strategy and MCSs.

Acknowledgements

The author wants to thank Anders Engström and his Alewalds top management team members Åsa Haglund and Henrik Bröte for good constructive discussions, engagement and efforts to participate in this study on a short notice, despite busy schedules and financial year end.

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